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Book Review: The Sports Stadium as a Municipal Investment

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BOOK REVIEW

THE SPORTS STADIUM AS A MUNICIPAL INVESTMENT
Dean V. Baim
[Westport, Connecticut: Greenwood Press 1994]
xvi + 240 pp., $55.00
ISBN 0-313-27816-4

This timely book, written by Pepperdine University Associate Professor Dean V. Baim, is a forthright and detailed look at whether cities are getting their money's worth from investments in professional sports facilities.

The Sports Stadium As A Municipal Investment is divided into two parts. Part I of this book comprises a review of the history, construction costs, and subsidy analysis of fifteen stadium projects: Dodger Stadium; Baltimore Memorial Stadium; Buffalo War Memorial Stadium; Denver Mile High Stadium; Robert F. Kennedy Stadium; Anaheim Stadium; Atlanta-Fulton Stadium; Oakland-Alameda County Coliseum Complex; Jack Murphy Stadium; Cincinnati Riverfront Stadium; Foxboro Stadium; Rich Stadium; Louisiana Superdome; and the Minneapolis Metrodome. Fourteen of the stadiums were chosen because sufficient financial data exists to determine whether these stadiums returned a profit to the public investors in the same sense that a private investor would measure profitability. Milwaukee County Stadium, the fifteenth stadium, was included because it is an example of a local government using a stadium to attract a professional sports team to a city; however, there was insufficient data to determine whether this stadium is profitable. Part II of the book, comprising chapters seventeen through twenty, is committed to analysis and summary. In these later chapters, Professor Baim addresses subsidies, the alleged external benefits that accrue to cities with professional sports teams, and the strength of private property incentives. Chapter twenty includes not only a summary and conclusion, it also offers bearings for future researchers in this area.

Utilizing an accumulated net present value analysis (ANPV), Baim compares each stadium's ANPV with investments of similar risk ANPV's to determine whether the investment in the stadium would do as well as a similar risk investment. From his research, Professor Baim makes generalizations regarding construction costs, subsidies, and the long-term outlook for stadium investments.

The first generalization is that projected construction costs are chronically underestimated. The data in the study overwhelmingly supports this allegation. Actual construction costs were an average of 73 percent above the projected costs. Projected construction costs ranged from a 0.4 percent overestimate for Three Rivers Stadium, to a 367 percent underestimate for the Louisiana Superdome. Even excluding the Superdome from the analysis, the stadium construction ventures would still be, on average, 67 percent above their projected costs.

The second generalization is that most municipal stadium investments earn a negative ANPV; as a result, a subsidy exists in most stadium financing transactions. Over the years covered in the study, the stadiums have had an aggregate negative ANPV of more than 119 million dollars. In his examination of the subsidy, Professor Baim divides his analysis between operating costs and fixed costs. Operating costs include game-day costs along with the costs of maintaining the stadium. Fixed costs comprise the costs of construction and servicing of the debt. Baim concludes that even if the city is not earning enough in rents to cover the fixed costs but is covering the operating costs of the stadium, the city government is acting rationally in keeping the team in the stadium. In contrast, if the stadium tenants do not pay enough to cover the operating expenses imposed on the city, the city would be better off not having the team play in the stadium unless the external benefits to the city justify the subsidy.

The third generalization is the likelihood that a stadium project will earn a positive ANPV over its life. The stadiums fall into one of three groups: (1) the stadiums that presently or are likely to have a positive ANPV by the end of the stadiums useful life; (2) the facilities that will likely never recover their construction costs but do earn enough in rents to recover their operating costs; and (3) the stadiums that fail to cover either their fixed costs or their operating costs. There are only four stadiums that fit within the first category: Dodger Stadium, Mile High Stadium, Baltimore's Memorial Stadium, and the Minneapolis Metrodome. The second category contains Anaheim Stadium, Foxboro Stadium, Robert F. Kennedy Stadium, and possibly Jack Murphy Stadium. The vast majority of the stadiums built in the last three decades fall into the third category and most notably include the Oakland-Alameda Coliseum Complex, the Louisiana Superdome, Atlanta-Fulton Stadium, and Buffalo's Memorial Stadium.

This book also examines some of the non-financial effects which some proponents of these projects contend must be taken into account. Backers of stadium projects frequently argue that ticket sales and concessions will not only lead to higher employment but also a greater demand for local goods and services. Baim points out, however, that it is an unrealistic assumption to assume that all of the new employees would have been unemployed without the investment in the sports facility. Moreover, a more realistic assumption is that game-day expenditures would likely have been spent on some other form of entertainment in the city. The author concludes that "a franchise will bring significant economic growth to an area only if it can serve as a magnet to business and visitors who otherwise would not have considered the city as a destination."

The conclusions of this book will likely be startling and surprising to municipal authorities and others involved in municipal stadium financing decisions. Even though the size of the subsidies vary widely, direct municipal financing almost always involves a net transfer of wealth from the taxpayer. Generally, the subsidy is in the form of unrecovered construction costs. The size of the subsidy is variable and depends upon the terms of the lease negotiated. Additionally, every example of lease renegotiation has succeeded in increasing the subsidy to the team. Moreover, given the nature of such a subsidy, it is not likely that the fans receive much of it. Some cities that have built to attract, or keep, a professional sports franchise justify it on the grounds of the external benefits the city obtains from hosting a professional sports franchise. While there is evidence to support the existence of these external benefits, these benefits are far from universal.

One of the policy implications promulgated by Baim is that team owners should be wary of promoting public support for a new stadium based on the external benefits the teams provide. The author believes that the owners who claim that their franchises improve their city's economy and image are setting themselves up for a challenge regarding the ownership of the team if the team decides to leave the city. A city that finds itself in such a situation may be tempted, before the team relocates, to exercise its powers of eminent domain based on its belief of the owner's claim.

This insightful book offers a variety of illuminating conclusions in the area of municipal sports stadium financing. Addressing highly publicized and often controversial transactions, the author informs public discussion by exploring the economic motives and effects surrounding these activities. In addition to probing specific sports stadium transactions, the book considers both the broader subject of the financial factors that shape municipal stadium arrangements in general and also the impact of non-financial factors on local government's decisions. This book will be a valuable tool to anyone interested in the area of sports stadium financing.

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